

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Eau Claire, Michigan</u>	County Berrien
Audit Date February 28, 2006	Opinion Date June 9, 2006	Date Accountant Report Submitted To State: July 27, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **Village of Eau Claire, Michigan**

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**Financial Report  
with Supplemental Information  
February 28, 2006**

# Village of Eau Claire, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Eau Claire, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Eau Claire, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Eau Claire, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Eau Claire, Michigan as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

June 9, 2006

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# **Village of Eau Claire, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Village of Eau Claire, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2006. Please read it in conjunction with the Village's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2006:

- State-shared revenue, the Village's second largest revenue source, remained approximately the same this year compared to fiscal year 2005.
- Water revenue decreased approximately \$9,000, due to two of the Village's significant customers' decrease in business.
- The Village completed payments on a bank note. The Village is now debt-free.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

# Village of Eau Claire, Michigan

## Management's Discussion and Analysis (Continued)

### The Village as a Whole

The following table shows, in a comparative, condensed format, the net assets as of February 28, 2006 and 2005:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 410,373	\$ 434,938	\$ 189,548	\$ 263,819	\$ 599,921	\$ 698,757
Noncurrent assets	197,954	168,868	375,605	284,854	573,559	453,722
Total assets	608,327	603,806	565,153	548,673	1,173,480	1,152,479
<b>Liabilities</b>						
Current liabilities	13,798	23,702	1,394	1,579	15,192	25,281
Long-term liabilities	3,030	2,238	-	-	3,030	2,238
Total liabilities	16,828	25,940	1,394	1,579	18,222	27,519
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	197,954	156,211	375,605	284,854	573,559	441,065
Restricted	124,225	119,916	-	-	124,225	119,916
Unrestricted	269,320	301,739	188,154	262,240	457,474	563,979
Total net assets	<u>\$ 591,499</u>	<u>\$ 577,866</u>	<u>\$ 563,759</u>	<u>\$ 547,094</u>	<u>\$ 1,155,258</u>	<u>\$ 1,124,960</u>

The Village's combined net assets increased 3 percent from a year ago - increasing from \$1,124,960 to \$1,155,258. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 2 percent, from \$577,866 to \$591,499, while business-type activities increased 3 percent, from \$547,094 to \$563,759.

# Village of Eau Claire, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows, in a comparative, condensed format, the changes in net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 8,743	\$ 10,950	\$ 145,964	\$ 154,468	\$ 154,707	\$ 165,418
Operating grants and contributions	54,087	57,689	-	8,969	54,087	66,658
General revenue:						
Property taxes	163,449	164,478	-	-	163,449	164,478
State-shared revenue	77,930	78,815	-	-	77,930	78,815
Unrestricted interest income	12,862	4,924	7,351	3,430	20,213	8,354
Miscellaneous	12,351	15,302	-	-	12,351	15,302
Total revenue	329,422	332,158	153,315	166,867	482,737	499,025
<b>Program Expenses</b>						
General government	121,178	89,022	-	-	121,178	89,022
Public safety	97,294	83,225	-	-	97,294	83,225
Public works	69,444	70,153	-	-	69,444	70,153
Recreation and culture	27,873	19,841	-	-	27,873	19,841
Water, sewer, and sanitation	-	-	136,650	131,401	136,650	131,401
Total program expenses	315,789	262,241	136,650	131,401	452,439	393,642
<b>Change in Net Assets</b>	<b>\$ 13,633</b>	<b>\$ 69,917</b>	<b>\$ 16,665</b>	<b>\$ 35,466</b>	<b>\$ 30,298</b>	<b>\$ 105,383</b>

# **Village of Eau Claire, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

- A property tax levy for 2005 was approved by the Village Council during the May 2005 council meeting at a combined general and streets millage rate of 15.5768.
- With approximate revenue of \$165,000 (assuming 100 percent collection), this would be a decrease of approximately 0.6 percent over the same revenue source from 2005.
- The Village paid Kalin Construction approximately \$35,000 for the construction of a road that connects Aubill Drive and Aumack.
- The Village purchased a John Deere mower for approximately \$14,000 for the use on Village parks and properties.

### **Business-type Activities**

During the year, the Village Council approved the following project related to the water and sewer departments. Approval and allocation of funds for the project were as follows:

- \$105,000 of construction work by Kalin Construction for two sewer/water main loops connecting Aubill Drive to Aumack and connecting the well house to Porter Drive
- Due to significant business deterioration in three of the Village's largest customers, water and sewer revenue decreased approximately \$12,000 in fiscal year 2006 from fiscal year 2005.

### **General Fund Budgetary Highlights**

The General Fund pays for most of the Village's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

As shown in the required supplemental information, the Village budgeted operational expenditures of \$214,358. Actual expenditures ended up greater than budget by \$27,285. The significant budget-to-actual differences were a result of the police department purchasing computers and software that were originally not expected, and required training by the State of Michigan that was not originally budgeted for. Also, at the beginning of the fiscal year, the Village signed a building lease to house the public works department equipment. This rent expense was not originally budgeted.



# **Village of Eau Claire, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The Village's fiscal year 2007 budget anticipates state-shared revenue consistent with fiscal year 2006. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Council has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

The Village plans to complete work on a new well and pump house modifications estimated to cost \$130,000.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Village of Eau Claire, Michigan

## Statement of Net Assets February 28, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 374,160	\$ 165,046	\$ 539,206
Receivables:			
Taxes	13,114	-	13,114
Customer	-	24,502	24,502
Due from other governmental units	23,099	-	23,099
Capital assets - Net (Note 4)	197,954	375,605	573,559
Total assets	608,327	565,153	1,173,480
<b>Liabilities</b>			
Accounts payable	8,166	1,394	9,560
Accrued and other liabilities	3,532	-	3,532
Noncurrent liabilities (Note 6):			
Due within one year - Employee compensated absences	2,100	-	2,100
Due in more than one year - Employee compensated absences	3,030	-	3,030
Total liabilities	16,828	1,394	18,222
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	197,954	375,605	573,559
Restricted for streets and highways	124,225	-	124,225
Unrestricted	269,320	188,154	457,474
Total net assets	<u>\$ 591,499</u>	<u>\$ 563,759</u>	<u>\$ 1,155,258</u>

# Village of Eau Claire, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Functions/Programs</b>			
Primary government:			
Governmental activities:			
General government	\$ 121,178	\$ 3,232	\$ -
Public safety	97,294	2,734	250
Public works	69,444	2,777	53,837
Recreation and culture	27,873	-	-
Total governmental activities	315,789	8,743	54,087
Business-type activities:			
Water	37,475	67,195	-
Sewer	72,661	52,861	-
Sanitation	26,514	25,908	-
Total business-type activities	136,650	145,964	-
Total primary government	<u>\$ 452,439</u>	<u>\$ 154,707</u>	<u>\$ 54,087</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted interest income			
Miscellaneous			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets - Beginning of year</b>			
<b>Net Assets - End of year</b>			

**Statement of Activities**  
**Year Ended February 28, 2006**

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (117,946)	\$ -	\$ (117,946)
(94,310)	-	(94,310)
(12,830)	-	(12,830)
<u>(27,873)</u>	<u>-</u>	<u>(27,873)</u>
(252,959)	-	(252,959)
-	29,720	29,720
-	(19,800)	(19,800)
<u>-</u>	<u>(606)</u>	<u>(606)</u>
-	9,314	9,314
<u>(252,959)</u>	<u>9,314</u>	<u>(243,645)</u>
163,449	-	163,449
77,930	-	77,930
12,862	7,351	20,213
<u>12,351</u>	<u>-</u>	<u>12,351</u>
<u>266,592</u>	<u>7,351</u>	<u>273,943</u>
13,633	16,665	30,298
<u>577,866</u>	<u>547,094</u>	<u>1,124,960</u>
<u><b>\$ 591,499</b></u>	<u><b>\$ 563,759</b></u>	<u><b>\$ 1,155,258</b></u>

# Village of Eau Claire, Michigan

## Governmental Funds Balance Sheet February 28, 2006

	Major Funds				
	General	Major Streets	Local Streets	Municipal Streets and Sidewalks	Total
	Fund	Fund	Fund	Fund	Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 262,959	\$ 49,167	\$ 15,576	\$ 46,458	\$ 374,160
Receivables:					
Taxes	9,367	-	-	3,747	13,114
Due from other governmental units	13,418	7,086	2,595	-	23,099
Due from other funds (Note 5)	1,709	-	-	-	1,709
Total assets	<u>\$ 287,453</u>	<u>\$ 56,253</u>	<u>\$ 18,171</u>	<u>\$ 50,205</u>	<u>\$ 412,082</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 7,218	\$ -	\$ 404	\$ -	\$ 7,622
Accrued and other liabilities	3,532	-	-	-	3,532
Total liabilities	10,750	-	404	-	11,154
<b>Fund Balances</b>					
Unreserved, reported in:					
General Fund:					
Designated for park improvements	93,235	-	-	-	93,235
Undesignated	183,468	-	-	-	183,468
Special Revenue Funds	-	56,253	17,767	50,205	124,225
Total fund balances	276,703	56,253	17,767	50,205	400,928
Total liabilities and fund balances	<u>\$ 287,453</u>	<u>\$ 56,253</u>	<u>\$ 18,171</u>	<u>\$ 50,205</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported the funds					131,800
Internal Service Fund is included as part of governmental activities					63,901
Long-term liabilities are not due and payable in the current period and are not reported in funds					(5,130)
Net assets of governmental activities					<u>\$ 591,499</u>

# Village of Eau Claire, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended February 28, 2006

	Major Funds				
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 116,811	\$ -	\$ -	\$ 46,638	\$ 163,449
State sources	77,930	39,458	14,379	-	131,767
Licenses and permits	4,251	-	-	-	4,251
Charges for services	40	-	-	-	40
Fines and forfeitures	4,696	-	-	-	4,696
Interest and rentals	10,555	1,527	184	2,314	14,580
Other	9,157	-	-	-	9,157
Total revenue	223,440	40,985	14,563	48,952	327,940
<b>Expenditures</b>					
General government	119,773	-	-	-	119,773
Public safety:					
Police	83,055	-	-	-	83,055
Inspections	5,727	-	-	-	5,727
Total public safety	88,782	-	-	-	88,782
Public works	8,488	36,439	51,000	12,752	108,679
Park and recreation	24,600	-	-	-	24,600
Total expenditures	241,643	36,439	51,000	12,752	341,834
<b>Excess of Revenue Over (Under) Expenditures</b>	(18,203)	4,546	(36,437)	36,200	(13,894)
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 5)	-	-	50,000	-	50,000
Transfers out (Note 5)	-	-	-	(50,000)	(50,000)
Total other financing sources (uses)	-	-	50,000	(50,000)	-
<b>Net Change in Fund Balances</b>	(18,203)	4,546	13,563	(13,800)	(13,894)
<b>Fund Balances - Beginning of year</b>	294,906	51,707	4,204	64,005	414,822
<b>Fund Balances - End of year</b>	<u>\$ 276,703</u>	<u>\$ 56,253</u>	<u>\$ 17,767</u>	<u>\$ 50,205</u>	<u>\$ 400,928</u>

# Village of Eau Claire, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 28, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (13,894)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	39,235
Governmental funds depreciation	(8,627)
Internal Service Fund is also included as governmental activities	(2,289)
Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>(792)</u>

<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 13,633</u></b>
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# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Net Assets (Deficit) February 28, 2006

	Major Funds				
	Waste Water	Water	Sanitation	Total	Internal
	Fund	Fund	Fund	Enterprise	Service
	Fund	Fund	Fund	Funds	Fund
<b>Assets</b>					
Current assets:					
Cash and cash equivalents (Note 3)	\$ 42,882	\$ 121,656	\$ 508	\$ 165,046	\$ -
Receivables - Net	9,144	10,865	4,493	24,502	-
Total current assets	52,026	132,521	5,001	189,548	-
Capital assets (Note 4)	223,462	152,143	-	375,605	66,154
Total assets	275,488	284,664	5,001	565,153	66,154
<b>Liabilities</b>					
Accounts payable	738	525	131	1,394	544
Due to other funds (Note 5)	-	-	-	-	1,709
Total liabilities	738	525	131	1,394	2,253
<b>Net Assets (Deficit)</b>					
Investment in capital assets - Net of related debt	223,462	152,143	-	375,605	66,154
Unrestricted	51,288	131,996	4,870	188,154	(2,253)
Total net assets (deficit)	<u>\$ 274,750</u>	<u>\$ 284,139</u>	<u>\$ 4,870</u>	<u>\$ 563,759</u>	<u>\$ 63,901</u>



# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended February 28, 2006

	Major Funds				
	Waste Water	Water	Sanitation	Total	Internal Service
	Fund	Fund	Fund	Funds	Fund
<b>Operating Revenue</b>					
Sewage disposal charges	\$ 52,861	\$ -	\$ -	\$ 52,861	\$ -
Sale of water	-	67,195	-	67,195	-
Sanitation charges	-	-	25,908	25,908	-
Equipment rental	-	-	-	-	36,771
Total operating revenue	52,861	67,195	25,908	145,964	36,771
<b>Operating Expenses</b>					
Salaries	20,165	18,736	1,616	40,517	3,626
Fringe benefits	300	364	-	664	112
Utilities	1,482	2,518	-	4,000	4,782
Supplies	848	4,594	433	5,875	1,639
Equipment rental expense	4,417	4,099	-	8,516	-
Lab tests	500	117	-	617	-
Refuse removal	-	-	22,492	22,492	-
Insurance	2,573	672	-	3,245	1,385
Maintenance	24,587	2,117	-	26,704	9,173
Depreciation	13,824	881	-	14,705	16,395
Professional services	2,850	1,614	1,745	6,209	1,038
Other	1,115	1,763	228	3,106	977
Total operating expenses	72,661	37,475	26,514	136,650	39,127
<b>Operating Income (Loss)</b>	(19,800)	29,720	(606)	9,314	(2,356)
<b>Nonoperating Revenue - Investment income</b>	2,304	5,033	14	7,351	67
<b>Change in Net Assets</b>	(17,496)	34,753	(592)	16,665	(2,289)
<b>Net Assets - Beginning of year</b>	292,246	249,386	5,462	547,094	66,190
<b>Net Assets - End of year</b>	<u>\$ 274,750</u>	<u>\$ 284,139</u>	<u>\$ 4,870</u>	<u>\$ 563,759</u>	<u>\$ 63,901</u>

# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended February 28, 2006

	Major Funds				
	Waste Water Fund	Water Operating Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 52,794	\$ 66,377	\$ 25,267	\$ 144,438	\$ 1,415
Payments to suppliers	(37,634)	(18,548)	(24,767)	(80,949)	(18,678)
Payments to employees	(20,465)	(19,100)	(1,616)	(41,181)	(3,738)
Receipts from interfund services and reimbursements	-	-	-	-	37,065
Net cash provided by (used in) operating activities	(5,305)	28,729	(1,116)	22,308	16,064
<b>Cash Flows from Capital and Related Financing Activities</b>					
Principal paid on long-term debt	-	-	-	-	(12,657)
Purchase of capital assets	(32,060)	(73,396)	-	(105,456)	(14,873)
Net cash used in capital and related financing activities	(32,060)	(73,396)	-	(105,456)	(27,530)
<b>Cash Flows from Investing Activities - Interest received</b>	2,304	5,033	14	7,351	67
<b>Net Decrease in Cash and Cash Equivalents</b>	(35,061)	(39,634)	(1,102)	(75,797)	(11,399)
<b>Cash and Cash Equivalents - Beginning of year</b>	77,943	161,290	1,610	240,843	11,399
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 42,882</b>	<b>\$ 121,656</b>	<b>\$ 508</b>	<b>\$ 165,046</b>	<b>\$ -</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ (19,800)	\$ 29,720	\$ (606)	\$ 9,314	\$ (2,356)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	13,824	881	-	14,705	16,395
Changes in assets and liabilities:					
Receivables	(67)	(818)	(641)	(1,526)	-
Accounts payable	738	(1,054)	131	(185)	316
Due to other funds	-	-	-	-	1,709
Net cash provided by (used in) operating activities	<b>\$ (5,305)</b>	<b>\$ 28,729</b>	<b>\$ (1,116)</b>	<b>\$ 22,308</b>	<b>\$ 16,064</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended February 28, 2006, the Waste Water, Water, Sanitation, and Internal Service Funds did not have any noncash activities.

# **Village of Eau Claire, Michigan**

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## **Notes to Financial Statements February 28, 2006**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Village of Eau Claire, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Eau Claire, Michigan:

#### **Reporting Entity**

The Village of Eau Claire, Michigan is governed by an elected five-member council. In accordance with accounting principles generally accepted in the United States, there are no component units to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. The Village has chosen to show all its funds as major.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Municipal Streets and Sidewalks Fund** - The Municipal Streets and Sidewalks Fund accounts for the resources provided by a tax millage to be used for road and sidewalk construction and repair.

The Village reports the following major proprietary funds:

**Waste Water Fund** - The Waste Water Fund accounts for the activities of the sewage collection system.

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sanitation Fund** - The Sanitation Fund accounts for the activities of the refuse collection service.

Additionally, the Village reports the following internal service activities:

**Internal Service Fund** - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's proprietary functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# Village of Eau Claire, Michigan

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## Notes to Financial Statements February 28, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2005 taxable valuation of the Village totaled \$10,592,128, on which taxes levied consisted of 11.1265 mills for operating purposes and 4.4503 mills for street repair and maintenance. This resulted in approximately \$118,000 for operating and \$47,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Pooled interest income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Water and sewer systems	15 to 50 years
Buildings and building improvements	50 years
Vehicles	5 to 10 years
Equipment	3 to 25 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2005	\$ (2,894)
Current year building permit revenue	2,704
Related expenses:	
Direct costs	\$ (2,056)
Estimated indirect costs	<u>(1,395)</u>
Total construction code expenses	<u>(3,451)</u>
Cumulative shortfall at February 28, 2006	<u>\$ (3,641)</u>

**Noncompliance with Legal Provisions** - As of the end of the fiscal year, the Village had not adopted an ACH policy, as required by the State of Michigan.

**Deficit Fund Balances** - The Internal Service Fund had an unrestricted fund balance deficit.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.



# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 3 - Deposits and Investments (Continued)

The Village has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$350,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance March 1, 2005	Additions	Disposals and Adjustments	Balance February 28, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 30,140	\$ -	\$ -	\$ 30,140
Capital assets being depreciated:				
Roads and sidewalks	-	35,498	-	35,498
Buildings and improvements	87,717	-	-	87,717
Vehicles	95,258	-	-	95,258
Office furnishings and equipment	140,198	18,610	-	158,808
Subtotal	323,173	54,108	-	377,281
Accumulated depreciation:				
Roads and sidewalks	-	828	-	828
Buildings and improvements	53,821	1,754	-	55,575
Vehicles	94,680	12,126	-	106,806
Office furnishings and equipment	35,944	10,314	-	46,258
Subtotal	184,445	25,022	-	209,467
Net capital assets being depreciated	138,728	29,086	-	167,814
Net capital assets	\$ 168,868	\$ 29,086	\$ -	\$ 197,954

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 4 - Capital Assets (Continued)

	Balance March 1, 2005	Additions	Disposals and Adjustments	Balance February 28, 2006
<b>Business-type Activities</b>				
Capital assets not being depreciated - Construction in progress	\$ 79,599	\$ -	\$ 24,971	\$ 54,628
Capital assets being depreciated:				
Water and sewer distribution systems	847,781	105,456	(24,971)	978,208
Machinery and equipment	62,653	-	-	62,653
Subtotal	910,434	105,456	(24,971)	1,040,861
Accumulated depreciation:				
Water and sewer distribution systems	649,963	14,382	-	664,345
Machinery and equipment	55,216	323	-	55,539
Subtotal	705,179	14,705	-	719,884
Net capital assets being depreciated	205,255	90,751	(24,971)	320,977
Net capital assets	<u>\$ 284,854</u>	<u>\$ 90,751</u>	<u>\$ -</u>	<u>\$ 375,605</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 1,758
Public safety	11,104
Public works	8,887
Recreation and culture	<u>3,273</u>
Total governmental activities	<u>\$ 25,022</u>
<b>Business-type activities:</b>	
Water	\$ 881
Waste water	<u>13,824</u>
Total business-type activities	<u>\$ 14,705</u>

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Equipment Fund	<u>\$ 1,709</u>

This balance represents a time lag between the payment of expenses and the reimbursement of the expenses.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Municipal Streets and Sidewalks Fund	Local Streets Fund	<u>\$ 50,000</u>

The transfer from the Municipal Streets and Sidewalks Fund to the Local Streets Fund represents the use of tax revenues to maintain local streets in the Village, in accordance with budgetary authorizations.

### Note 6 - Long-term Debt

The Village borrows funds to provide for the acquisition of major capital assets. Installment purchase agreements are general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Internal Service Fund - Equipment note payable	0%	<u>\$ 12,657</u>	<u>\$ -</u>	<u>\$ (12,657)</u>	<u>\$ -</u>	<u>\$ -</u>
Compensated absences		<u>\$ 4,338</u>	<u>\$ 792</u>	<u>\$ -</u>	<u>\$ 5,130</u>	<u>\$ 2,100</u>

### Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 7 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 8 - Pension Plan

**Plan Description** - The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by the Village Commission and requires a contribution from the employees of 8.26 percent of gross wages.

**Annual Pension Cost** - For the year ended February 28, 2006, the Village's annual pension cost of \$14,670 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

	Fiscal Year Ended February 28		
	2004	2005	2006
Annual pension costs (APC)	\$ 6,088	\$ 6,317	\$ 14,670
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2006

### Note 8 - Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 221,648	\$ 241,602	\$ 240,555
Actuarial Accrued Liability (AAL) (entry age)	284,936	390,155	406,580
Unfunded AAL (UAAL)	(63,288)	(148,553)	(166,025)
Funded ratio	77.79%	61.92%	59.17%
Covered payroll	110,430	87,963	95,832
UAAL as a percentage of covered payroll	(57.31%)	(168.88%)	(173.25%)

## **Required Supplemental Information**

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# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2006

	Original and Final Budget	Actual	Variance with Budget
<b>Revenue</b>			
Property taxes	\$ 108,800	\$ 116,811	\$ 8,011
State sources	79,400	77,930	(1,470)
Licenses and permits	2,856	4,251	1,395
Charges for services	60	40	(20)
Fines and forfeitures	7,000	4,696	(2,304)
Interest and rentals	4,450	10,555	6,105
Other	4,600	9,157	4,557
Total revenue	207,166	223,440	16,274
<b>Expenditures</b>			
Administration	76,069	80,965	(4,896)
Building	26,521	38,808	(12,287)
Public safety:			
Police	77,608	83,055	(5,447)
Fire	360	-	360
Inspections	1,760	5,727	(3,967)
Total public safety	79,728	88,782	(9,054)
Street lighting	9,000	8,488	512
Park and recreation	23,040	24,600	(1,560)
Total expenditures	214,358	241,643	(27,285)
<b>Net Change in Fund Balance</b>	(7,192)	(18,203)	(11,011)
<b>Fund Balance - Beginning of year</b>	294,906	294,906	-
<b>Fund Balance - End of year</b>	<u>\$ 287,714</u>	<u>\$ 276,703</u>	<u>\$ (11,011)</u>

# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended February 28, 2006

	Original and Final Budget	Actual	Variance with Budget
<b>Revenue</b>			
State sources	\$ 38,000	\$ 39,458	\$ 1,458
Interest income	-	1,527	1,527
Total revenue	38,000	40,985	2,985
<b>Expenditures</b>			
Salaries and benefits	8,566	5,753	2,813
Routine street maintenance	52,000	22,240	29,760
Equipment rental	4,340	6,238	(1,898)
Winter maintenance	750	466	284
Professional fees	1,190	1,392	(202)
Other	350	350	-
Total expenditures	67,196	36,439	30,757
<b>Net Change in Fund Balance</b>	(29,196)	4,546	33,742
<b>Fund Balance - Beginning of year</b>	51,707	51,707	-
<b>Fund Balance - End of year</b>	<u>\$ 22,511</u>	<u>\$ 56,253</u>	<u>\$ 33,742</u>



# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended February 28, 2006

	Original and Final Budget	Actual	Variance with Budget
<b>Revenue</b>			
State sources	\$ 14,000	\$ 14,379	\$ 379
Interest income	-	184	184
Total revenue	14,000	14,563	563
<b>Expenditures</b>			
Salaries and benefits	8,143	6,326	1,817
Routine street maintenance	51,500	36,682	14,818
Equipment rental and storage	9,540	5,389	4,151
Winter maintenance	750	508	242
Professional fees	1,490	1,745	(255)
Other	350	350	-
Total expenditures	71,773	51,000	20,773
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	(57,773)	(36,437)	21,336
<b>Other Financing Sources - Transfers in</b>	56,743	50,000	(6,743)
<b>Net Change in Fund Balance</b>	(1,030)	13,563	14,593
<b>Fund Balance - Beginning of year</b>	4,204	4,204	-
<b>Fund Balance - End of year</b>	<u>\$ 3,174</u>	<u>\$ 17,767</u>	<u>\$ 14,593</u>

# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Municipal Streets and Sidewalks Fund Year Ended February 28, 2006

	Original and Final Budget	Actual	Variance with Budget
<b>Revenue</b>			
Property taxes	\$ 44,300	\$ 46,638	\$ 2,338
Interest income	-	2,314	2,314
Total revenue	44,300	48,952	4,652
<b>Expenditures</b>			
Salaries and benefits	8,915	6,985	1,930
Flowers	850	983	(133)
Equipment rental and storage	3,540	2,106	1,434
Other	5,000	2,678	2,322
Total expenditures	18,305	12,752	5,553
<b>Excess of Revenue Over Expenditures</b>	25,995	36,200	10,205
<b>Other Financing Uses</b> - Transfers out	56,743	50,000	6,743
<b>Net Change in Fund Balance</b>	(30,748)	(13,800)	16,948
<b>Fund Balance</b> - Beginning of year	64,005	64,005	-
<b>Fund Balance</b> - End of year	<u>\$ 33,257</u>	<u>\$ 50,205</u>	<u>\$ 16,948</u>

# Village of Eau Claire, Michigan

## Note to Required Supplemental Information February 28, 2006

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are prepared by the finance committee on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds and adopted by the Village Council. Subsequent amendments, if any, are approved by the Village Council. The budget was not amended during the year ended February 28, 2006.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Village had the following significant expenditure budget variances:

	Budget	Actual
General Fund:		
Public safety - Police	\$ 77,608	\$ 83,055
Building	26,521	38,808



To the Village Council  
Village of Eau Claire  
Eau Claire, Michigan 49111

In planning and performing our audit of the financial statements of the Village of Eau Claire (the "Village") for the year ended February 28, 2006, we considered the Village's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

### **Segregation of Duties**

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, and makes bank deposits. A second individual does receive the bank statements and prepares the bank reconciliations, adding a level of control. Due to limited personnel, the Village does not feel further segregation would be warranted from a cost/benefit standpoint.

### **Pay Rate Approval**

When the Village Council approves pay rate increases, an "across the board" rate increase is generally approved and documented. In order to maintain internal accountability and strong controls, we recommend detail of these increases, by individual, be maintained in respective personnel files. This would permit an easy review of an employee's pay history and current approved rates. When a pay adjustment is approved, a member of the Village Council should then sign off on the new rate within each file. This would further strengthen controls over the payroll process.

To the Village Council  
Village of Eau Claire

## **Utility Revenue**

We noted that overall utility revenue is down due to a significant decrease in usage by a few significant customers. With the Village having certain fixed costs in the utility systems, this decrease in revenue significantly impacted net operating results. While excess revenues in the past have resulted in available retained earnings, successive years of losses could consume this amount quickly. If this loss of revenue is deemed other than short term, actions should be considered. One option might be to consider current rates being charged for water and sewer services to determine whether they are set at reasonable levels to fund this important service being provided by the Village.

## **Interest Income Allocation**

The Village currently has a pooled cash arrangement in which all Village cash is held in one bank account. Reconciliations track how much cash belongs to each separate fund. The pooled cash arrangement allows the Village to earn a higher interest rate of return. This interest is really attributable to cash belonging to all funds and thus should be allocated to all funds. We noted that the Village is spreading this interest to a few of the funds but not to all of the funds that hold cash balances. We recommend that the interest spread calculation include all funds that hold cash balances during the year.

## **Fixed Asset Classification**

We recommend that the Village adopt a policy for classifying asset groups and their related lives. We would be pleased to provide the Village with an example fixed asset policy, if requested.

## **Budgeting**

When comparing amounts budgeted and final actual expenditures, we noted several large variances. Since the budget process includes a great deal of estimating, it is not unusual for significant variances to develop. We recommend the Village monitor expenditures in the various funds and appropriately amend these budgets during the year to maintain compliance with State budget regulations.

To assist you in your future budgeting efforts, following is a reminder of the requirements the Village must comply with as part of the Uniform Budgeting Act (P.A. 621):

- Budgets must be adopted for the General Fund and all Special Revenue Funds.
- The budgets must be balanced including beginning fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoption.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

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### **Electronic Transfers**

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of “automated clearing house (ACH) transactions.” Beginning immediately, a local unit’s governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsibility for payment approval, accounting, reporting, and compliance with the ACH policy
- A statement that this individual is required to submit documentation as follows: describe goods or services purchased, the cost, date of payment, and the department benefiting from the purchase
- A system of internal controls to monitor the use of ACH transactions, and
- The approval of ACH invoices before payment

### **State-shared Revenue and Budgeting**

The State’s fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor’s proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State’s budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State’s structural deficit in its General Fund and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

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State-shared revenue accounts for approximately 35 percent of the Village's total General Fund revenue. The table below details state-shared revenue for the Village over the past seven years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Village compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Increase (Decrease) from 2000</u>
2000	\$ 46,233	\$ 33,486	\$ 79,719	\$ -
2001	54,495	42,569	97,064	(17,345)
2002	51,584	43,003	94,587	(14,868)
2003	45,320	43,731	89,051	(9,332)
2004	36,780	43,255	80,035	(316)
2005	34,876	44,287	79,163	556
2006	33,239	45,025	78,264	1,455

We will continue to update the Village as developments occur. The statutory formula expires in 2007 and requires action by the legislature.

We appreciate the courtesy and cooperation extended to us by you during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

July 17, 2006